

# Management Letter

Nasha Shkola  
Charter School No. 4208  
Brooklyn Park, Minnesota

For the Year Ended  
June 30, 2018

Management and Board of Education  
Nasha Shkola Charter School No. 4208  
Brooklyn Park, Minnesota

We have audited the financial statements of the governmental activities and each major fund of Nasha Shkola Charter School No. 4208 (the Charter School), Minnetonka, Minnesota for the year ended June 30, 2018 and have issued our report thereon date NEED DATE. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 13, 2018. Professional standards also require that we communicate to you the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control over financial reporting of the Charter School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

**Significant Audit Findings**

In planning and performing our audit of the financial statements, we considered the Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Charter School's compliance with those requirements. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or Minnesota statutes.

## Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Charter School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Charter School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements include depreciation on capital assets, receivables from the Department of Education, and the Charter School's net pension liabilities related to its proportionate share of TRA and PERA pensions.

- Management's estimate of depreciation is based on estimated useful lives of the assets. Depreciation is calculated using the straight-line method.
- Management estimates a portion of the receivable from the Department of Education on student numbers and past expenditures.
- Management's estimate of its portion of the Charter School's net pension liabilities related to its proportionate share of TRA and PERA pensions (assets) are based on the Charter School's contributions in relation to all contributions to each plan as a whole. The overall net pension liability for TRA and PERA are based on several factors including, but not limited to, anticipated retirement age for active employees, life expectancy, survivor life expectancy, and high-five salary.

We evaluated the key factors and assumptions used to develop estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

## Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

## Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

## Management Representations

We have requested certain representations from management that are included in the management representations letter dated NEED DATE.

## **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Charter School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the Charter School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## **Other Matters**

We applied certain limited procedures to the required supplementary information (RSI) (Management's Discussion and Analysis, the Schedules of Employer's Share of the Net Pension Liability, the Schedules of Employer's Contributions, which is information that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information (individual fund financial schedule and table), which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

## **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Charter's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## Financial Position and Results of Operations

Our principal observations and recommendations are summarized on the following pages. These recommendations resulted from our observations made in connection with our audit of the Charter School's financial statements for the year ended June 30, 2018.

### General Fund

A summary of current year budgeted and actual revenue and expenditures is as follows:

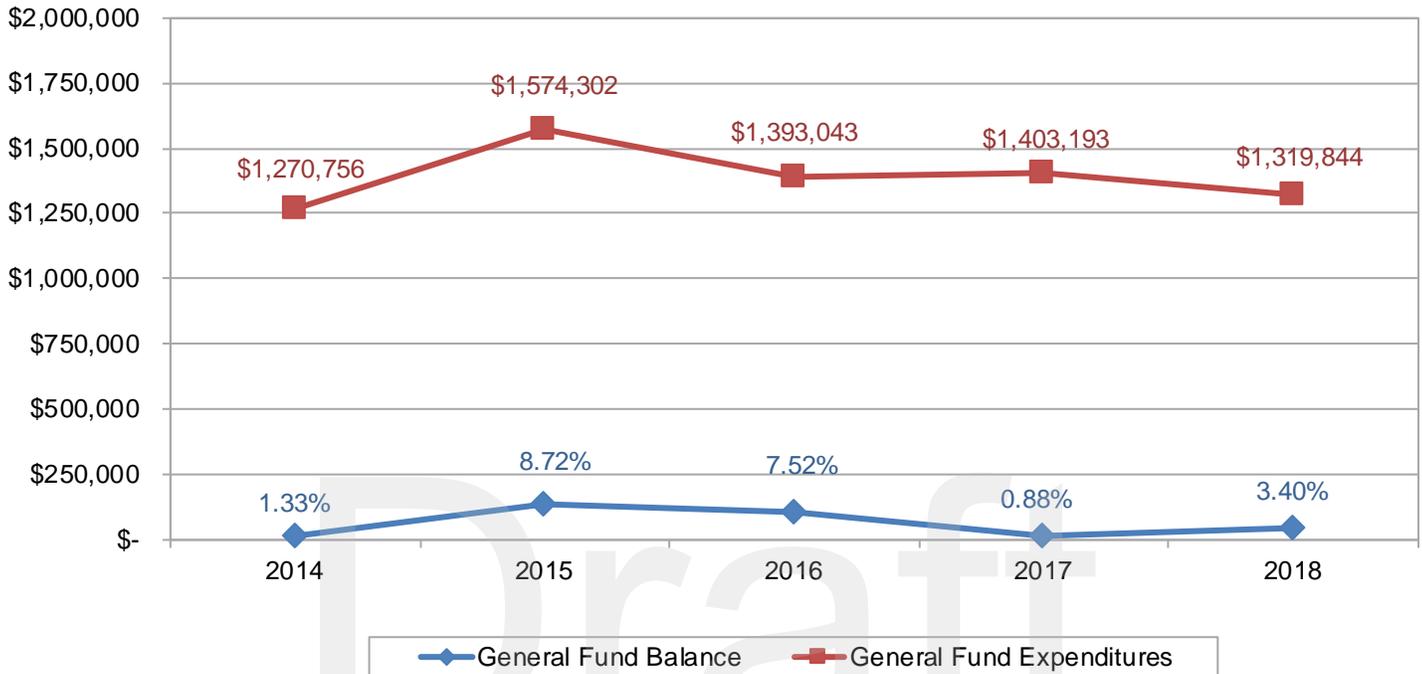
	Final Budgeted Amount	Actual Amount	Variance with Final Budget
Revenues	\$ 1,395,964	\$ 1,352,389	\$ (43,575)
Expenditures	<u>1,331,513</u>	<u>1,319,844</u>	<u>11,669</u>
Excess of Revenues Over Expenditures	64,451	32,545	(31,906)
Other Financing Uses Transfers out	<u>(1,500)</u>	<u>-</u>	<u>1,500</u>
Net Change in Fund Balances	62,951	32,545	(30,406)
Fund Balances, July 1	<u>12,296</u>	<u>12,296</u>	<u>-</u>
Fund Balances, June 30	<u>\$ 75,247</u>	<u>\$ 44,841</u>	<u>\$ (30,406)</u>

Some of the line items with significant variances from the final budget are highlighted as follows:

- Total revenue increased a total of \$39,769 mainly due to an increase of state-aid of \$81,848 offset by decreases of all other revenues other than federal grants.
- Total expense decreased by \$62,348, notably due to a decrease in sites and buildings expenses of \$72,511 and an increase in admin expenses of \$37,069. Elementary and secondary instruction costs decreased by \$34,948 and pupil support services increased by \$25,787 as well.

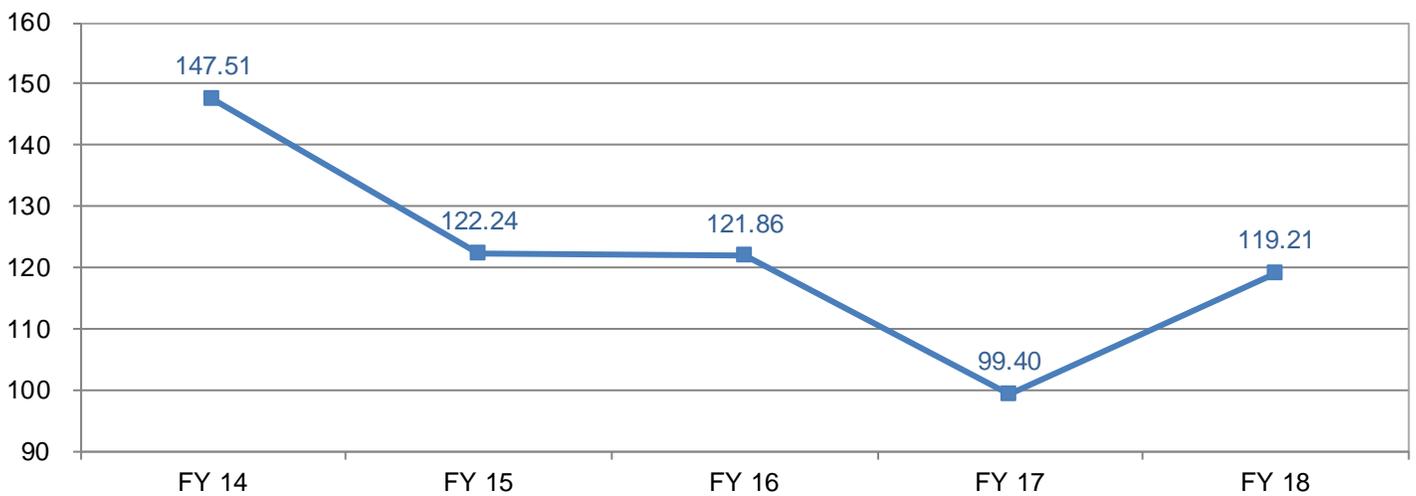
It is important for the Charter School to maintain a fund balance at a level sufficient to fund working capital needs and to provide some cushion for unforeseen expenditures. A useful guide to an appropriate level is the percent of fund balance to expenditures. We recommend a fund balance of around 7 to 10 percent of planned expenditures. As shown below in the chart, the Charter School is no longer within the recommended fund balance. Although the fund balance has dropped below the recommended fund balance, the Charter School is confident that a change in location as well as other measures will change the fund balance in future years to be within and above the recommended fund balance level.

Listed below is an analysis of fund balance compared to expenditures. The Charter School's expenditures exceeded revenues by \$32,545 in 2018 and had a net decrease in fund balance of \$32,545.



The average daily membership (ADM) for the prior five years is outlined in the chart below:

### ADM



A further breakdown of revenues by source for the past three years is as follows:

Source	2016	2017	2018	Per ADM
Revenue from Federal Sources	\$ 100,985	\$ 71,974	\$ 54,821	\$ 460
Revenue from State Sources, Net	1,261,021	1,196,825	1,293,036	10,847
Other Local and County Revenue	6,202	45,005	4,532	38
<b>Total Revenues</b>	<b>\$ 1,368,208</b>	<b>\$ 1,313,804</b>	<b>\$ 1,352,389</b>	<b>\$ 11,345</b>

A further breakdown of expenditures and transfers out by program for the past three years is as follows:

Program	2016	2017	2018	Per ADM	Per ADM in PY
Administration	\$ 8,782	\$ 77,426	\$ 92,048	\$ 772	\$ 779
District Support Services	144,167	94,356	89,021	747	949
Elementary and Secondary Regular Instruction	616,018	622,423	572,562	4,803	6,262
Special Education Instruction	107,455	106,857	105,083	881	1,075
Instructional Support Services	20,648	21,102	24,251	203	212
Pupil Support Services	192,684	164,341	189,761	1,592	1,653
Sites and Buildings	280,998	293,642	221,013	1,854	2,954
Fiscal and Other Fixed Cost Programs	8,116	8,745	9,651	81	88
Capital Outlay	-	800	1,759	15	8
Transfers Out	7,616	3,079	-	-	31
Debt Service	14,175	13,501	14,695	123	136
<b>Total Expenditures</b>	<b>\$ 1,400,659</b>	<b>\$ 1,406,272</b>	<b>\$ 1,319,844</b>	<b>\$ 11,072</b>	<b>\$ 14,147</b>

#### Food Service Special Revenue Fund

The Charter School did not budget for a transfer from the General fund in fiscal year 2018 while revenues exceeded expenditures by \$619. The budget was not amended during the year and revenues were \$5,721 less than budget and expenditures were \$6,340 less than budget.

#### Community Service Special Revenue Fund

The Charter School closed the Community Service fund in fiscal year 2018.

## Future Accounting Standard Changes

The following Governmental Accounting Standards Board (GASB) Statements have been issued and may have an impact on future Charter School's statements: <sup>(1)</sup>

### **GASB Statement No. 83 - *Certain Asset Retirement Obligations***

#### **Summary**

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

## **Future Accounting Standard Changes (Continued)**

### **Effective Date**

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

### **How the Changes in This Statement Will Improve Financial Reporting**

This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

### **GASB Statement No. 84 - *Fiduciary Activities***

#### **Summary**

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

### **Effective Date**

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

### **How the Changes in This Statement Will Improve Financial Reporting**

The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship.

## Future Accounting Standard Changes (Continued)

### GASB Statement No. 85 - *Omnibus 2017*

#### Summary

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

#### Effective Date

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

#### How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements.

### GASB Statement No. 86 - *Certain Debt Extinguishment Issues*

#### Summary

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

#### Effective Date

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

## **Future Accounting Standard Changes (Continued)**

### **How the Changes in This Statement Will Improve Accounting and Financial Reporting**

The requirements of this Statement will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this Statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance.

### **GASB Statement No. 87 - Leases**

#### **Summary**

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

#### **Effective Date and Transition**

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets.

### **How the Changes in This Statement Will Improve Accounting and Financial Reporting**

This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements.

<sup>(1)</sup> *Note.* From GASB Pronouncements Summaries. Copyright 2017 by the Financial Accounting Foundation, 401 Merritt 7, Norwalk, CT 06856, USA, and is reproduced with permission.

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## Restriction on Use

This communication is intended solely for the information and use of the Board of Education, management, and the Minnesota Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data. The comments and recommendations in the report are purely constructive in nature, and should be read in this context.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the opportunity to be of service and for the courtesy and cooperation extended to us by your staff.

ABDO, EICK & MEYERS, LLP  
Minneapolis, Minnesota  
NEED DATE

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